

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 FEA-01 L-03 /082 W
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R 161040Z AUG 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2911

LIMITED OFFICIAL USE SECTION 1 OF 2 ALGIERS 1829

E.O. 11652: N/A

TAGS: PFOR, EGEN, AG, US

SUBJ: PROBLEMS WITH CHEMICO LNG PROJECT

REF: (A) ALGIERS 1642 (B) ALGIERS 1673

SUMMARY: SONATRACH PRESIDENT GHOZALI TOLD AMBASSADOR AUGUST 14 THAT CHEMICO PERFORMANCE ON CONSTRUCTION OF LNG PLANT AT ARZEW UNSATISFACTORY FROM BEGINNING OF WORK IN 1973. WHEN CHEMICO FINALLY ADMITTED THAT IT COULD NOT COME CLOSE TO MEETING SCHEDULED COMPLETION DATE, IT INSISTED ON ADDITIONAL \$70 MILLION IF WORK WERE TO CONTINUE. ESSENCE OF SONATRACH-CHEMICO PROBLEM AT THIS JUNCTURE IS NOT IMMEDIATE DEMAND FOR \$70 MILLION WHICH SONATRACH WILLING DISCUSS AND IN CONNECTION WITH WHICH SONATRACH ALREADY SEEKING ADDITIONAL EXIM FUNDS. IT IS INSTEAD UNWILLINGNESS OF CHEMICO TO SPECIFY NEW FIRM COST FIGURE OR NEW COMPLETION DATE, WHICH SONATRACH TAKES AS DESIRE TO BREAK CONTRACT. THIS UNACCEPTABLE TO SONATRACH. END SUMMARY.

1. FOLLOWING IS REPORT OF AUG. 14 CONVERSATION BETWEEN AMBASSADOR AND GHOZALI, SONATRACH PRESIDENT. DMC LYNE AND ECONOFF BURNS ALSO PRESENT. GHOZALI BEGAN WITH LONG RUNDOWN
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OF HISTORY OF CHEMICO'S CONTRACT. HE NOTED THAT IN ORDER

SATISFY CHEMICO'S DESIRE TO KEEP ITS ENGINEERS BUSY, ALGERIA HAD GIVEN IT PERMISSION TO BEGIN WORK ON PROJECT EVEN BEFORE NECESSARY APPROVAL HAD BEEN OBTAINED FROM THE FPC. IN MARCH 1973 FPC HAD GIVEN ITS APPROVAL AND WITH SIMILAR APPROVAL FROM EXIMBANK FOR FINANCING EVERYTHING SEEMED READY TO GO. IN MEANTIME CHEMICO HAD BEEN SOLD BY BOISE CASCADE TO AREOJET, A SUBSIDIARY OF GENERAL TIRE. EVEN WITH THESE CHANGES, HOWEVER, CONSTRUCTION FORMALLY BEGAN IN JUNE 1973 AND WORK BEGAN IN EARNEST 3-4 MONTHS LATER.

2. INITIAL WORK PERFORMANCE HAD BEEN SLOW. GHOZALI HAD MENTIONED THIS TO CHEMICO BUT HAD NO REAL NORM AGAINST WHICH TO COMPARE WORK PERFORMANCE. SONATRACH COULD TELL, HOWEVER, FROM PREVIOUS PROJECTS THAT NUMBER OF EXPATRIATES ON THE JOB SITE WAS INSUFFICIENT. OUT OF THE 350 EXPATRIATES THAT SONATRACH ESTIMATED WOULD BE NEEDED, CHEMICO HAD ONLY 60 OR 70 ON THE SITE IN EARLY 1974.

3. GHOZALI CONTINUED THAT ALGERIA HAD BEGUN TO BE VERY CONCERNED IN NOV. 1974. HEADS OF THE CHEMICO TEAMS IN ALGERIA AND IN NEW YORK HAD BEEN CHANGED SEVERAL TIMES AND SONATRACH BEGAN TO QUESTION STABILITY OF CHEMICO ORGANIZATION. IT WAS AT THIS POINT THAT BECHTEL, SONATRACH'S TECHNICAL ADVISOR ON THE PROJECT, ALSO BECAME CONCERNED AND ESTIMATED THAT PROJECT WAS AS MUCH AS TWO YEARS BEHIND SCHEDULE. GHOZALI NOTED THAT ON A \$2 BILLION PROJECT, ALGERIA LOST \$700,000 PER DAY FOR EACH DAY IN WHICH CAPITAL WAS IMMOBILIZED AND NO REVENUE EARNED. CHEMICO AGREED AT THIS POINT THAT THEY WERE LATE BUT MAINTAINED THAT SCHEDULE WAS THEIR BUSINESS AND THEY WOULD MAKE UP TIME LOST.

4. IN APRIL 1975 GHOZALI MET MR. NICHOLS OF CHEMICO IN PARIS. NICHOLS FINALLY ADMITTED, ACCORDING TO GHOZALI, THAT CHEMICO WOULD NOT MEET ITS SCHEDULE AND THEN SUDDENLY ADDED DEMAND FOR READJUSTMENT OF FINANCIAL PART OF CONTRACT. GHOZALI COMPLAINED THAT FOR 1 1/2 YEARS CHEMICO HAD BEEN SAYING THAT THEY COULD RECOVER TIME LOST AND THAT 60-70 EXPATRIATES WOULD BE ADEQUATE FOR LIMITED OFFICIAL USE

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THE WORK. THEN WHEN CONTRACT WAS FOUR YEARS OLD, THEY DEMANDED RENEGOTIATION.

5. GHOZALI EXPLAINED THAT HE HAD SEEN NICHOLS AGAIN IN MAY OF THIS YEAR AND HAD POINTED OUT THAT THEN WAS NOT THE TIME FOR READJUSTMENT OF THE CONTRACT. OTHER COMPANIES HAD FACED SIMILAR COST OVERRUN PROBLEMS BUT ALWAYS RAISED THESE PROBLEMS WITH SONATRACH AFTER

PROJECT COMPLETED. THIS ARRANGEMENT HAD BEEN USED WITH BOTH JAPANESE AND FRENCH COMPANIES. CHEMICO WAS INSISTING, HOWEVER, THAT IT WOULD LEAVE PROJECT UNLESS IT WAS PROMISED ADDITIONAL FUNDS IMMEDIATELY. GHOZALI THEN EXPLAINED THAT CHEMICO'S DEMAND FOR ADDITIONAL FUNDS WAS NOT ESSENCE OF PROBLEM. IN DISCUSSIONS WITH CHEMICO, GHOZALI MAINTAINED THAT THE COMPANY HAD REFUSED TO FIX NEW CONTRACT COST; WOULD NOT SPECIFY REVISED COMPLETION DATE AND WOULD NOT GUARANTEE ADDITIONAL FINANCING. RE LAST POINT GHOZALI ASSERTED THAT SONATRACH COULD NOT FINANCE ADDITIONAL AMOUNT WHICH CHEMICO WAS ASKING FOR AT THIS POINT. HE SAID HE HAD DISCUSSED THE NEED FOR THIS FINANCING WITH MR. CASEY, PRESIDENT OF EXIMBANK, BUT HAD NO DEFINITE RESPONSE. HE SENT LETTER TO CASEY ON JULY 28 ASKING FOR HELP WITH FINANCING OVERRUN.

6. GHOZALI NOTED THAT DURING HIS RECENT VISIT TO WASHINGTON HE HAD MET MR. VOLBRECHT, CHAIRMAN OF AEROJET. THIS VISIT, HE SAID, HAD ADDED TO HIS CONCERNS. HE HAD REALIZED FROM IT THAT TRUE PROBLEM WAS THAT AEROJET WAS NOT SATISFIED WITH CONTRACT AND WANTED TO DRAW UP ENTIRELY NEW ONE. SONATRACH, HE SAID, WOULD NOT ACCEPT THIS. SONATRACH WAS PREPARED TO MAKE CONCESSIONS IF CHEMICO WOULD PROVIDE A SPECIFIC DATE FOR COMPLETION AT A SPECIFIC COST. BUT, GHOZALI COMPLAINED, IT WAS IMPOSSIBLE AT THIS POINT TO TELL EXACTLY WHAT CHEMICO WANTED TO DO.

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INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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SIL-01 FEA-01 L-03 /082 W

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R 161040Z AUG 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 2912

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7. GHOZALI SAID HE HAD DONE HIS BEST TO REMOVE OBSTACLES IN WAY OF PROGRESS ON THE ARZEW PROJECT. HE HAD PERSONALLY URGED AND RECEIVED THE COOPERATION OF CUSTOMS, THE POLICE, AND HIS OWN STAFF TO MAKE THINGS EASIER FOR CHEMICO. CHEMICO'S PRESENT ATTITUDE OF VAGUENESS AND INDECIVENESS, HOWEVER, WAS SOMETHING THAT HE HAD NOT RUN ACROSS BEFORE IN HIS 12 YEARS OF NEGOTIATING MAJOR CONTRACTS.

8. SONATRACH, GHOZALI ADDED, HAS CREATED SPECIAL TEAM AT ARZEW TO EXAMINE CHEMICO'S CONTENTIONS ABOUT COST OVER-RUNS (EMBASSY ASSUMES THIS IS THE CONSULTING FIRM, IN-O-VEN). TEAM WILL PREPARE REPORTS ON WHICH SONATRACH WILL BASE ITS DECISION. CHEMICO WANTS AN ADDITIONAL \$70 MILLION TO COVER COST OVERRUNS WHICH THEY SAY HAVE REACHED \$95 MILLION. BUT, SAID GHOZALI, THERE ARE LIMITS BEYOND WHICH GOA WILL NOT GO IN SUBMITTING TO THIS "BLACKMAIL." FOR INSTANCE GHOZALI SAID, CHEMICO NOW MAINTAINS THAT IT HAS CASH PROBLEMS. DESPITE FACT THAT SONATRACH HAS PAID 60 PERCENT OF CONTRACT PRICE WHEN ONLY 40 PERCENT OF THE CONTRACT WORK HAS BEEN DONE, CHEMICO SAYS IT NOW NEEDS \$4 MILLION CASH TO CONTINUE WORK. BUT SONATRACH, WHICH AS YET UNSURE RE RESPONSE OF LIMITED OFFICIAL USE

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EXIMBANK, HAS NO CASH OF ITS OWN TO SATISFY THIS

9. GHOZALI SAID THIS FIRST TIME IN RELATIONS BETWEEN SONATRACH AND AMERICAN COMPANIES THAT SUCH A SITUATION HAS COME UP. HE HAD ASKED NICHOLS ABOUT ATTITUDE OF GENERAL TIRE ON CONTRACT BUT GOT NO RESPONSE. HIS OWN FEELING WAS THAT GENERAL TIRE CORP. DOES NOT SUPPORT THE CHEMICO CONTRACT. MEANWHILE, GHOZALI COMPALINED, PACE OF WORK IS NOT IMPROVING. CHEMICO IS ADVANCING AT RATE OF 1.3 PERCENT OF WORK PER MONTH. AT THAT RATE IT WILL TAKE AN ADDITIONAL 50 MONTHS TO GET JOB DONE. ALL OF THIS, GHOZALI STRESSED, HAS IMPLICATIONS FOR U.S./ALGERIAN POLITICAL RELATIONS AS WELL AS ECONOMIC RELATIONS.

10. GHOZALI AGAIN STRESSED THAT SONATRACH HAD MADE EXTRAORDINARY EFFORT TO REMOVE THE BARRIERS TO CHEMICO'S PROGRESS. SONATRACH, HE SAID, IS READY TO ACCEPT A LOT BUT WILL NOT RENOUNCE CONTRAT. IF ALGERIA CHANGES CONTRACTORS AT THIS POINT, IT WILL LOSE BOTH TIME AND MONEY. ALL ALGERIA HAS IS CONTRACT AND IT WILL

NOT CHANGE IT. SONATRACH IS READY TO DISCUSS COST
OVERRUNS, BUT CHEMICO WANTS TO DESTROY CONTRACT. GHOZALI
MAINTAINED THAT THOUGH HE HAD HIS DOUBTS ABOUT CHEMICO
ALL ALONG, HE HAD ACTED AS THOUGH CHEMICO WAS SINCERE AND
ATTEMPTING TO DO ITS BEST. THIS TRUST HAD BEEN MISPLACED
AND HAD AGGRAVATED THE SITUATION. GHOZALI CONCLUDED
THAT HE WAS FOREGOING HIS SUMMER LEAVE AND REMAINING IN
ALGIERS SPECIFICALLY BECAUSE OF PROBLEMS CONNECTED WITH
THE CHEMICO CONTRACT.
PARKER

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